



Central Vermont Public Service Corporation

May 12, 2006

Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Post Office Drawer 20
Montpelier VT 05620-2701

Re: DPS Proposed New Energy and Capacity Avoided Costs

Dear Ms. Hudson:

This letter will serve as Central Vermont Public Service Corporation's ("Central Vermont," "CVPS" or the "Company") recommendation on the process to be followed to review and adopt new energy and capacity avoided costs as requested by the Public Service Board (the "Board") pursuant to the memorandum issued by the Clerk's office on May 5, 2005 in the above referenced matter.

As the Board notes, on May 3, 2006, the Vermont Department of Public Service (the "DPS" or "Department") formally filed its proposed new energy and capacity avoided costs (the "Avoided Costs") with the Board and requested that they be approved in accordance with the procedure contemplated under the Docket No. 5980 Memorandum of Understanding (the "MOU"). The process for amending avoided costs as contemplated under paragraph 11 of the MOU provides:

The DPS also will update avoided costs used in EEU program and measure screening and estimates of economically achievable energy efficiency potential as appropriate. Such updates shall be filed with and approved by the Board after an opportunity for other parties to file written comments and request a technical workshop.

Id. In accordance with this process, CVPS believes that it does make sense to convene a technical workshop and that there are questions concerning the development and make up of the Avoided Costs that should be addressed before they are formally adopted. Since it has been a long time since Vermont's avoided costs were updated by the DPS, the Company also suggests that the Board establish an informal process for asking and obtaining responses to information requests to facilitate expeditious and efficient review.

Central Vermont notes that the Department did convene several workshops to provide interested parties insight and information concerning the effort undertaken to develop the new Avoided Costs. In that process, much information was conveyed and participants were afforded a preliminary opportunity to informally obtain responses to information requests. As a result, CVPS believes that it will be able to concentrate its efforts to study the Department's proposal.

CVPS will attempt to make staff available for a technical workshop to accommodate the Board's schedule. CVPS can confirm the availability of interested staff for a workshop on May 30th or 31st, and June 6th or 7th.

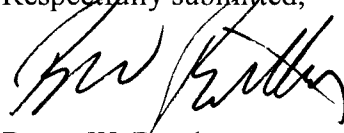
It should be noted that the development of accurate avoided costs is now more critical to the success of Vermont system-wide demand side management ("DSM") programs than was the case when the parties entered into the Docket No. 5980 MOU. At that time, avoided costs were used to allocate program resources but the budget for the System-wide DSM efforts was capped. Now, with the passage of Act 61, the Legislature has removed the cap and instructed the Board to establish a budget to realize the reasonably available, cost-effective energy efficiency savings. 30 V.S.A. § 209(d)(4). As a result, the Avoided Costs will now be used to help identify the achievable DSM, and to guide the establishment and the pace for DSM acquisition. It is therefore important that the assumptions used to develop the Avoided Costs are consistent with the other fuel price and market estimates used to measure the cost-effectiveness of DSM programs and measures – especially the screening for fuel-switching options and alternatives. Moreover, as utilities attempt to better integrate DSM into their planning to solve system and reliability concerns, assuring that the Avoided Costs used to help target DSM services and investments are timely and accurate helps to compare resource options and reduce the cost of planning studies. Accordingly, the Company maintains that the technical workshop should consider these aspects of the Avoided Costs as well as the attendant processes used for DSM measure and field screening.

As the Board notes, processes are underway to develop a budget for the Energy Efficiency Utility ("EEU") as a part of the Act 61 implementation effort. CVPS does not believe it is necessary to link the decision on the EEU budget directly to the finalization of the new Avoided Costs. Since power prices are high and are not anticipated to drop appreciably in the near-term, it is likely that many of the DSM measures being implemented by the EEU are cost-effective. This conclusion is confirmed by the Company's assessment of DSM potential undertaken as a part of its assessment of alternatives for the resolution of supply problems affecting the Southern Loop. It is also the case under the DSM potential study recently filed by the DPS. Hence, CVPS believes that the present circumstances do not create significant risk that warrants the linking of these review efforts at this time. CVPS notes, however, that once the new Avoided Costs are approved, the specific DSM program designs and implementation strategies

undertaken by the EEU should be reviewed and adjusted to assure that efficiency efforts are strategically integrated into electric system planning to best serve customer interests over the long-term.

Should you have questions concerning these comments, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bruce W. Bentley", written over the printed name.

Bruce W. Bentley

Cc: Service List